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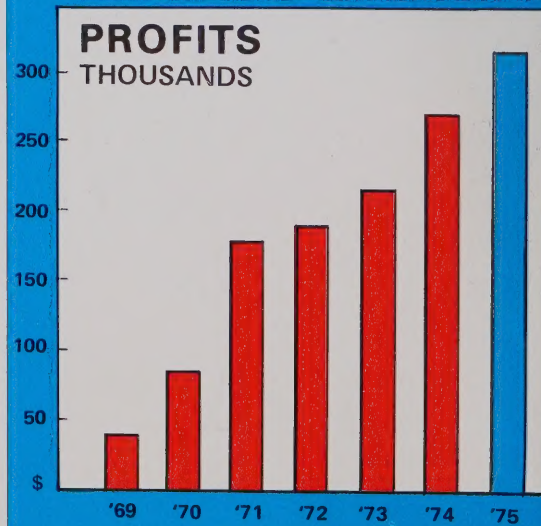
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1975 Annual Report

Results . . . at a glance



ROYAL OAK DAIRY, LIMITED

ANNUAL REPORT

1975

FINANCIAL HIGHLIGHTS

	1975	1974	1973	1972	1971	1970	1969
Sales	16,698,580	13,489,568	11,148,336	10,401,596	9,439,000	8,334,000	7,441,000
Net Profit	311,858	268,193	221,368	190,255	173,000	79,000	38,000
Earnings per Share							
Class A	10.18	8.27	6.58	5.07	4.62	2.11	1.00
Class B & C	.85	.74	.62	.56	.50	.19	.05
Equity per Share	3.63	3.17	2.89	2.57	2.30	2.08	1.90

ROYAL OAK DAIRY, LIMITED

DIRECTORS' REPORT

TO THE SHAREHOLDERS

The Directors are pleased to report that the net earnings for the year have increased by 15%. The earnings per share were 59c on a fully diluted basis compared with 53c in 1974, up 11.3%. The financial results are satisfactory.

Dairy Division

Sales in dollars increased 23% over 1974 although the volume (quarts) declined. This stemmed not from a loss in accounts but rather from consumer reaction to the higher price of milk caused by the demands of the Milk Marketing Board. Milk did increase in price in the prior three years, but there was no long lasting reaction from the public. Our volume was stable. In 1975, the decline in per capita consumption was about 1% in Ontario and its affect in Hamilton was even greater. Your Company's volume was particularly sensitive to this. We also lost gross margin, about 3c on the dollar. Putting it another way, we have not been able to recover the increasing costs of product and package from the market place. Another unusual cost was a generous bonus for the majority of our employees in the latter half of the year, a bonus which in most cases was about equal to the previously negotiated contract increase for the year. Management felt this necessary to counter inflation and erosion of our employees' living standards. Despite these, the dairy maintained its profitability by holding the managed costs to an 8.6% increase; administrative costs rose only 1.4%. Finally, our recent sales efforts have reversed the trend of declining volume. We introduced a new slogan, "Reach out for Royal Oak", which was used very successfully in saturation media advertising in the Fall. Our market penetration is now rising.

Retail Store Divisions

Retail sales in Bantam and Astro stores increased 23%, far beyond any inflationary changes in food prices. On a per store basis, the increase was 17% in Bantam. The number of stores has also increased to 54, with 7 openings and two closings. Another store was gutted by fire. Fortunately, there was empty space nearby and we opened a fully stocked store three days later, much to the credit of our field staff.

A major factor that affected sales was the opening of many super markets on Sunday in the late Fall. Sales fell. Since the Ontario Sunday closing legislation became effective January 1, 1976, we have completely recovered.

Bantam Store profitability declined, both absolutely and as a percentage of the sales. There were three substantial added costs. First, the energy used by the stores increased by a third. Secondly, inventory losses were unusually high, perhaps relating to the overall depressed economy. We will control these losses by closer screening of our staff and by tighter retail security. Finally, administration costs rose sharply. Additional management resources are therefore being made available to the retail divisions.

ROYAL OAK DAIRY, LIMITED

The Outlook

Overall, the Company's position is strong. During our President's five years of office, sales have more than doubled. Profitability has increased eight fold. There has been a steady growth from year-to-year. The Company now has a more aggressive and younger management team. Its resources are well deployed between the retail operation and the dairy itself. We expect weakness in the milk market, with large raw milk surpluses in the offing. We are sure there are very real opportunities for your management to capitalize on this unstable market and we are sure the strengths of the Company will more than offset whatever difficulties may lie ahead in the short term.

On behalf of the Board of Directors,

March 15, 1976
Hamilton, Ontario

D. R. Hamilton
President

DIRECTORS

R. W. Greenwood, Burlington
F. W. Hamilton, Ancaster
D. R. Hamilton, Burlington
W. G. Lumsden, Burlington

D. A. C. Martin, O. C., Hamilton
J. W. A. Darby, Stoney Creek
J. A. Crofton, Willowdale
W. P. Pigott, Ancaster

OFFICERS

Chairman of the Board of Directors	F. W. Hamilton
President	D. R. Hamilton
Vice-President - Operations and Secretary	J. W. A. Darby
Vice-President - Sales	C. White
Treasurer	R. W. Greenwood
Assistant Secretary	J. A. Crofton
Assistant Treasurer	N. Stimers

Bankers

Bank of Montreal	
Transfer Agent and Registrar	The Royal Trust Company
Plant and Offices	Head Office - 225 East Ave. N., Hamilton, Ontario

ROYAL OAK

CONSOLIDATED

ASSETS

1975

1974

CURRENT

Cash	\$ 162,605	\$ 478,894
Accounts receivable -		
Trade	506,955	420,832
Other	61,267	20,159
Marketable securities - at cost		
(market value - 1975 - \$391,589;		
1974 - \$347,145)	304,277	293,367
Inventories	943,925	789,627
Prepaid expenses	45,278	81,496

2,024,307

2,084,375

MORTGAGES RECEIVABLE

33,492

45,428

FIXED (note 2)

Land, buildings, plant and equipment	3,220,861	3,004,978
Accumulated depreciation	1,687,134	1,593,877
	1,533,727	1,411,101

EXCESS OF COST OF SHARES IN SUBSIDIARY OVER VALUE OF NET ASSETS ACQUIRED (note 3)

33,328

37,497

\$3,624,854

\$3,578,401

APPROVED ON BEHALF OF THE BOARD

D. R. Hamilton, President
J. W. A. Darby, Director

AIRY, LIMITED

BALANCE SHEET

LIABILITIES

	1975	1974
CURRENT		
Bank Loan	\$ ---	\$ 45,000
Accounts payable and accrued liabilities	1,453,439	1,385,506
Managers' deposits	53,266	49,117
Liability for income taxes	24,611	51,014
Mortgages due within one year	4,447	26,777
	<u>1,535,763</u>	<u>1,557,414</u>
LONG-TERM		
Mortgages payable (note 4)	86,100	112,613
Bank loans and advances	---	150,000
	<u>86,100</u>	<u>262,613</u>
DEFERRED TAX LIABILITY	99,450	90,913

SHAREHOLDERS' EQUITY

CAPITAL STOCK (note 5)		
Authorized - (after conversions)		
32,435 Class "A" shares of no par value, cumulative, preferred dividends of 80¢ per share, convertible to Class "B" at the rate of 6 Class "B" for each Class "A"		
700,000 Class "B" participating shares of no par value, not to be issued for consideration greater than \$1,000,000		
87,500 common shares of no par value, not to be issued for consideration greater than \$400,000		
Issued and fully paid -		
30,605 Class "A" shares		
287,495 Class "B" shares and		
53,875 common shares	125,000	125,000
RETAINED EARNINGS	1,534,124	1,298,044
EXCESS OF APPRAISED VALUE OF FIXED ASSETS OVER DEPRECIATED COST	244,417	244,417
	<u>1,903,541</u>	<u>1,667,461</u>
	<u>\$3,624,854</u>	<u>\$3,578,401</u>

ROYAL OAK DAIRY, LIMITED

Consolidated Statement of Earnings

	1975	1974
SALES	\$16,698,580	\$13,489,568
COST OF SALES including selling, general and administrative expenses	15,942,041	12,797,354
MARGIN	756,539	692,214
PROVISION FOR DEPRECIATION AND AMORTIZATION	211,154	179,977
INTEREST ON LONG-TERM DEBT	9,015	32,108
	220,169	212,085
NET EARNINGS FROM OPERATIONS BEFORE INCOME TAXES	536,370	480,129
INCOME TAXES	247,346	231,809
NET EARNINGS FROM OPERATIONS	289,024	248,320
INCOME FROM MARKETABLE SECURITIES	22,834	19,873
NET EARNINGS FOR THE YEAR	\$ 311,858	\$ 268,193
NET EARNINGS PER PARTICIPATING SHARES		
Basic	\$.85	\$.74
Fully diluted	.59	.53

ROYAL OAK DAIRY, LIMITED

Consolidated Statement of Changes in Financial Position

	1975	1974
SOURCE OF WORKING CAPITAL		
Operations -		
Net earnings for the year	\$ 311,858	\$ 268,193
Loss on disposal of fixed assets	10,329	---
	<u>322,187</u>	<u>268,193</u>
Depreciation and amortization	211,154	179,977
Increase in deferred income taxes	8,537	21,643
	<u>541,878</u>	<u>469,813</u>
Reduction in mortgages receivable	11,936	---
Increase in bank loan	---	50,000
Proceeds on disposal of fixed assets	5,760	26,661
	<u>559,574</u>	<u>546,474</u>
APPLICATION OF WORKING CAPITAL		
Additions to fixed assets	345,700	340,796
Reduction in mortgages payable	26,513	34,821
Dividends paid	75,778	97,698
Reduction of bank loans	150,000	---
Increase in mortgages receivable	---	38,828
Purchase of subsidiary plus working capital deficiency of \$46,297 at acquisition (note 3)	---	81,297
	<u>597,991</u>	<u>593,440</u>
(DECREASE) IN WORKING CAPITAL	(38,417)	(46,966)
WORKING CAPITAL - BEGINNING OF YEAR	526,961	573,927
WORKING CAPITAL - END OF YEAR	\$ 488,544	\$ 526,961

ROYAL OAK DAIRY, LIMITED

Consolidated Statement of Retained Earnings

	1975	1974
BALANCE - BEGINNING OF YEAR	\$1,298,044	\$1,148,263
Net earnings for the year	<u>311,858</u>	<u>268,193</u>
	1,609,902	1,416,456
Adjustment to record investment in subsidiary on equity basis (note 3)	<u>---</u>	<u>20,714</u>
Dividends (note 8)	<u>75,778</u>	<u>97,698</u>
	75,778	118,412
BALANCE - END OF YEAR	\$1,534,124	\$1,298,044

AUDITORS' REPORT

To the Shareholders of
Royal Oak Dairy, Limited,
Hamilton, Ontario

We have examined the consolidated balance sheet of Royal Oak Dairy, Limited and its subsidiaries as at December 31, 1975 and the consolidated statements of earnings and retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1975 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

March 1, 1976

MacGILLIVRAY & CO.
Chartered Accountants

ROYAL OAK DAIRY, LIMITED

Notes to Consolidated Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Companies Consolidated -

These financial statements include the accounts of the parent company, Royal Oak Dairy, Limited and its wholly-owned subsidiaries, Bantam Stores Limited, Riverview Dairy Limited, and Astro Variety Limited.

(b) Inventories -

The inventories are valued at the lower of cost and net realizable value. Cost for inventories of the dairy operation is calculated using first in first out method while inventories in the stores are calculated by the retail inventory method.

(c) Depreciation -

All assets used by the Dairy Division, Riverview Dairy Limited and Astro Variety Limited are depreciated using the declining balance method. The Bantam Stores Division uses the straight-line method to depreciate its buildings, equipment, leasehold improvements and the declining balance method for its other assets.

(d) Excess of Cost of Shares in Subsidiary Over Value of Net Assets Acquired -

The excess of the cost of the investment over the value of the net assets acquired is being amortized against operations on a straight-line basis over a ten year period.

(e) Earnings per Share -

Basic earnings per share have been calculated using a weighted average of outstanding participating stock during the year. Fully diluted earnings per share assumes the conversion of all outstanding Class "A" shares to Class "B".

2. FIXED ASSETS AND ACCUMULATED DEPRECIATION

The fixed assets of the company were appraised at December 31, 1948 by Dominion Appraisal Company Limited. All subsequent additions have been recorded at cost. Accumulated depreciation was determined by the above appraisal with subsequent provision based on original cost of the assets.

3. PURCHASE OF SUBSIDIARY

On April 9, 1974, the company purchased the remaining 50% interest in Astro Variety Limited together with a note due from that company for a total consideration of \$35,000. These financial statements reflect the consolidation of the accounts of Astro Variety Limited from April 9, 1974 as well as the charge to retained earnings of Royal Oak Dairy, Limited's share of accumulated losses while the Astro Variety Limited was an affiliate.

4. MORTGAGES PAYABLE

The company is liable for various mortgages with the major portion against retail store locations. Interest rates on these mortgages range from 7% to 10% and the latest maturity date is within the year 1978.

5. CAPITAL

Class "A" shares are convertible to Class "B" shares at the rate of 6 Class "B" shares for each Class "A" share. During the year under review, 1,830 Class "A" shares were converted into 10,980 Class "B" shares.

6. LEASE COMMITMENTS

The minimum annual rentals under leases for retail store locations amount to \$316,800. None of the leases extend for a period of more than ten years from the balance sheet date.

7. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

The total direct remuneration paid to directors and senior officers of the company amounted to \$156,668 in 1975 and \$151,766 in 1974.

8. DIVIDENDS

The Class B and C Dividends were increased in 1974 and put on a quarterly basis after payment (in February) of the prior year's Annual Dividends. The total amount paid in 1974 is thus not strictly comparable to 1975.

Taste The Difference